

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-____ - ____

IN RE:

**Application of Daufuskie Island
Utility Company, Inc. for Approval
To Enter Into Loan Agreement**

**APPLICATION
FOR APPROVAL TO
TO ENTER INTO LOAN
AGREEMENT**

Pursuant to 26 S.C. Code Regs. R. 103-743 and R. 103-541 and the South Carolina Public Service Commission's Rules of Practice and Procedure, Daufuskie Island Utility Company, Inc. ("Applicant" or "DIUC") hereby files this Application for Approval to Enter into a Loan Agreement with SunTrust Bank ("SunTrust").

In support of its Application, DIUC respectfully submits:

1. The Applicant provides water and wastewater services for compensation to customers located in its approved service area on Daufuskie Island, Beaufort County, South Carolina. The Applicant is a "public utility" under the terms of S.C. Code Ann. §58-5-10(4) and is subject to the regulatory jurisdiction of the South Carolina Public Service Commission ("Commission").
2. The rates and charges of the Applicant are regulated and subject to the approval of the Commission. The current rates and charges for Applicant's water and wastewater service were approved by the Commission in Docket Number 2014-346-WS.
3. Regulations 103-541 and 103-743 of the South Carolina Code of Regulations provide that a utility shall seek the Commission's approval of contracts or agreements which "impact,

pertain to, or effect ..." its "ability to provide water service [sewer service], including but not limited to treatment of said water" 26 S.C. Code Regs. R. 103-743.

4. As more fully set forth in the attached Confidential Non-Binding Proposal Letter, SunTrust has indicated it is willing to consider providing DIUC with a term loan of up to \$3,750,000, not to exceed 65% of as-is market value of DIUC's facilities. See Exhibit One (Letter from Carol Coppola, SunTrust Bank, to Daufuskie Island Utility Company, Inc. dated May 11, 2018). The purpose of the loan is to renew DIUC's existing loans and to allow DIUC to obtain additional funds for general corporate purposes, including capital expenditures. Id.
5. DIUC is owned by Daufuskie Island Holding Company, LLC ("DIHC"). The three members of DIHC are Terry Lee, David Hutt, and Ronald Shimanowitz. Along with DIUC, Messrs. Lee, Hutt, and Shimanowitz will serve as guarantors for the proposed loan.
6. As stated in the Proposal Letter, DIUC will use proceeds from the proposed loan from SunTrust to refinance the balances of its existing term and installment loans with SunTrust and for corporate purposes, including capital improvements.
7. SunTrust's offer relies on DIUC's existing net investment (original cost less accumulated depreciation and net CIAC) as collateral, resulting in the conversion of a portion of DIUC's existing equity to debt. The proposed financing, then, will result in a debt/equity ratio of about 49%/51% on the basis of existing net investment and the debt portion will adjust downward to about 47%/53% after anticipated capital additions are completed with proceeds from the loan. For comparison, the capital structure reflected in DIUC's recent rate application in Docket No. 2014-346-WS included a debt/equity ratio of 41.2%/58.8% and the Commission's rate decision used a debt/equity ratio of 46%/54%. Because the cost rate of debt is lower than the cost of equity, the loan and increased capital acquired by the

loan proceeds will reduce the cost of capital and lower DIUC's overall rate of return thereby offsetting the level of future rate increases.

8. The terms of the proposed SunTrust loan are commercially reasonable, fair, and the product of arm's length negotiation. The proposed loan also includes interest rate options favorable to DIUC. As set forth in the Proposal Letter, DIUC will have the ability to enter into an interest rate swap with SunTrust to convert the loan's variable rate to a fixed rate for the loan. The anticipated debt rate of 5.26% under this "swap option" is slightly lower than the rate of 5.29% on DIUC's current loan.
9. This refinancing will also improve the reliability of the provision of water and wastewater service. In order to comply with an existing Consent Order between DIUC and the South Carolina Department of Health and Environment Control, DIUC is obligated to install generators for both the water and wastewater systems without delay. The supplier of the required generators advises that its production time is still delayed following last year's hurricane season and that installation for DIUC would be scheduled 4 to 8 weeks after an order is placed. With hurricane season approaching, DIUC needs to place its order for the generators as soon as possible, but the loan proceeds are required for DIUC to commit to that order. Because of the need for generators, it is imperative that the loan from SunTrust be approved without delay so that DIUC can consummate the loan as soon as SunTrust determines it is ready and willing to close the loan.
10. Based upon the foregoing, it is in the best interests of the customers of the Applicant and the public that this Commission approve this Application for Approval to Enter into a Loan Agreement with SunTrust Bank as soon as possible. Accordingly, the public convenience and necessity will be served by the Commission's approval of this Application.

11. Time is of the essence with respect to the proposed loan from SunTrust. DIUC requests that Commission conduct an expedited proceeding using an administrative action for consideration and determination of this Application.

12. The South Carolina Office of Regulatory Staff and the SCDHEC are being served with a copy of this Application.

WHEREFORE, having fully set forth its Application, DIUC prays that the Commission:

- (a) Expedite review of the within Application;
- (b) Approve the proposed loan from SunTrust Bank; and
- (c) Grant to DIUC such other and further relief as the Commission may deem just and proper.

Respectfully submitted,

/s/ Thomas P. Gressette, Jr.

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May 17, 2018
Charleston, South Carolina

CERTIFICATE OF SERVICE

This is to certify that on May 17, 2018, I caused to be served upon the counsel identified below a copy of the foregoing Application for Approval to Enter into a Loan Agreement with SunTrust Bank electronic mail, as indicated.

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